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Commonwealth of Kentucky  
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Michael J. Schmitt  
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Daniel E. Logsdon Jr.  
Commissioner

July 19, 2016

## PARTIES OF RECORD

Re: Case No. 2016-00109

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact J.E.B. Pinney, Commission Staff Attorney, at 502-782-2587.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina R. Mathews  
Executive Director

JEP/ph

Attachments

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File  
**FROM:** J.E.B. Pinney, Staff Attorney *J.P.*  
**DATE:** July 18, 2016  
**RE:** Case No. 2016-00109

An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 21, 2015.

Pursuant to the Commission Staff's ("Staff") July 7, 2016 Notice, an informal conference ("IC") was held in this matter on July 12, 2016, at the Commission's offices in Frankfort, Kentucky for the purpose of discussing the issues in this case. A list of attendees is attached hereto.

Staff and representatives from Kentucky Power Company ("Kentucky Power") first discussed an adjustment to the February 2016 expense month to correct an over-collection for the May through October 2015 expense months. Kentucky Power stated that a misclassification of non-associated and non-physical revenues used in calculating the retail allocation factor percentage resulted in an overstatement of the percentage, which Kentucky Power subsequently corrected in the November 2015 expense month reports. Kentucky Power stated that it would provide notice to the Commission if it files adjustments in the future.

Staff and Kentucky Power next reviewed the monthly report forms relating to the Acid Rain Program ("Acid Rain") and Cross-State Air Pollution Rule ("CSAPR") SO<sub>2</sub> emission allowances. Kentucky Power confirmed that Acid Rain and CSAPR allowances are recorded separately and concurrently consumed at the same rate. It further explained that the current reporting forms combine the current and future allowances to show the total inventory but that the average cost is calculated with only current allowances. Kentucky Power proposed further revisions to the reporting forms for emission allowances to include additional columns to better illustrate the average cost calculations. Kentucky Power responded to several Staff questions, including confirming that Kentucky Power still receives SO<sub>2</sub> allowances for Big Sandy Unit 1 despite the recent conversion to natural gas and includes these allowances in the total inventory. Kentucky Power agreed to submit revised Forms 3.11A and 3.11B within 10 days.

Staff and Kentucky Power finally discussed Kentucky Power's proration calculation of the environmental surcharge ("ES") for the May and June 2015 expense months. The primary issue was whether Kentucky Power should have applied the old ES tariff rate or a zero factor for that expense period through June 21, 2015. The particular confusion arose due to two previous cases, Case Nos. 2012-00578<sup>1</sup> and Case No. 2014-00396.<sup>2</sup> As part of a settlement agreement in Case No. 2012-00578, Kentucky Power's ES monthly factor was set to zero percent until the Commission set new base rates, at which point Kentucky Power would apply the ES monthly factor contained in its revised ES tariff. The Commission, on June 22, 2015 in Case No. 2014-00396, established new base rates for Kentucky Power; therefore, Kentucky Power was authorized to charge the ES monthly factor contained in its revised tariff for service rendered on and after June 22, 2015.

Kentucky Power applied the ES monthly factor calculated according to the ES tariff effective for service rendered on and after January 1, 2014 ("Prior Tariff ES") for bills rendered between July 1, 2016 and August 20, 2016. Kentucky Power prorated the ES factor between the Prior Tariff ES rate and the rate calculated according to Kentucky Power's current Tariff ES for bills rendered between August 21, 2016 and September 20, 2016. For bills rendered after September 21, 2016, the current Tariff ES rate was used. A question arose regarding the propriety of Kentucky Power's application of the ES because service supplied in the May and June expense months, prior to the enactment of the new base rates in Case No. 2014-00396, was billed in July and August. Kentucky Power expressed concern that it may have improperly applied the ES to those two billing periods. Staff stated that it could not opine regarding the propriety of Kentucky Power's calculations. Staff recommended that Kentucky Power recalculate the May and June expense months applying the zero percent ES factor and file those calculations with the Commission to be compared with the already submitted ES calculations. Kentucky Power agreed to submit the calculations within 10 business days. Thereafter the conference adjourned.

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<sup>1</sup> Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest In the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities In Connection With the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred In Connection With the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (KY. PSC Oct. 7, 2013.)

<sup>2</sup> Case No. 2014-00396, *Application of Kentucky Power Company for: (1) a General Adjustment of Its Rates for Electric Service; (2) an Order Approving its 2014 Environmental Compliance Plan; (3) an Order Approving Its Tariff and Riders; (4) an Order Granting All Other Required Approvals and Relief* (KY. PSC Jun. 22, 2015).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF KENTUCKY )  
POWER COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING DECEMBER 31, 2015 )

CASE NO.  
2016-00109

July 12, 2016

Please sign in:

NAME

REPRESENTING

J.E.B. Pinney

PSC - Legal

Ron Handziak

PSC - FA

Bob Russell

PSC

MARK R. OVERSTREET

STATES & Harbison Pa Ky. Power Co.

Amy Elliott

KPCo

John Rogness

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Steve Sharp

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Mary Whitaker

PSC - FA

Molly Katen

PSC Legal

Ken Gish

STATES & Harbison Pa Ky. Power Co.

Tason Blake

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